

**REPORT ON EXAMINATION**  
**OF THE**  
**AMERICAN BUSINESS & PERSONAL**  
**INSURANCE MUTUAL, INC.**  
**AS OF**  
**DECEMBER 31, 2007**

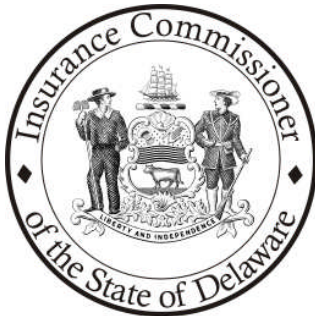
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware,  
do hereby certify that the attached REPORT ON EXAMINATION,  
made as of December 31, 2007 of the

AMERICAN BUSINESS & PERSONAL INSURANCE MUTUAL, INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Sonia C. Harris*

DATE: 29 JANUARY 2009



*In Witness Whereof, I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS  
29th day of January, 2009 .*

---


Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**AMERICAN BUSINESS & PERSONAL INSURANCE MUTUAL, INC.**  
**AS OF**  
**December 31, 2007**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.



---

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 29th day of January, 2009.

## **TABLE OF CONTENTS**

<b>SALUTATION.....</b>	<b>1</b>
<b>SCOPE OF EXAMINATION.....</b>	<b>2</b>
<b>HISTORY.....</b>	<b>3</b>
<b>CAPITALIZATION.....</b>	<b>3</b>
<b>MANAGEMENT AND CONTROL .....</b>	<b>3</b>
<b>INSURANCE HOLDING COMPANY SYSTEM.....</b>	<b>5</b>
<b>TRANSACTIONS WITH AFFILIATES.....</b>	<b>5</b>
<b>MANAGEMENT AND SERVICE AGREEMENTS.....</b>	<b>7</b>
<b>TERRITORY AND PLAN OF OPERATION .....</b>	<b>9</b>
<b>GROWTH OF THE COMPANY.....</b>	<b>9</b>
<b>ACCOUNTS AND RECORDS.....</b>	<b>11</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>11</b>
<b>Analysis of Assets.....</b>	<b>12</b>
<b>Statement of Liabilities, Surplus and Other Funds .....</b>	<b>13</b>
<b>Underwriting and Investment Exhibit .....</b>	<b>13</b>
<b>Capital and Surplus Account.....</b>	<b>15</b>
<b>Analysis of Examination Changes.....</b>	<b>15</b>
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>15</b>
<b>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS .....</b>	<b>16</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>16</b>
<b>CONCLUSION .....</b>	<b>17</b>

## **SALUTATION**

June 19, 2008

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with your instructions and pursuant to statutory provisions contained in Certificate of Authority letter 08.009, dated January 3, 2008, an examination has been made of the affairs, financial condition and management of the

### **AMERICAN BUSINESS & PERSONAL INSURANCE MUTUAL, INC.**

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a mutual company with its home office located at 307 N. Michigan Avenue, Chicago, Illinois. The examination was conducted at the main administrative office of the Company, located at 307 N. Michigan Avenue, Chicago, Illinois.

The report of such examination is submitted herewith.

### **SCOPE OF EXAMINATION**

The last examination was conducted as of December 31, 2003. This examination covered the period January 1, 2004, through December 31, 2007, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events occurring subsequent to the latter date were reviewed and have been commented upon to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department and generally accepted statutory insurance examination standards.

In addition to noted items in this report, the following topics were reviewed and are included in the workpapers of this examination. No exceptions or errors were noted during our review of these items:

- Corporate Records
- Conflict of Interest
- Fidelity Bond and Other Insurance Coverages
- Legal Actions
- All Asset and Liability Items not Mentioned in this Report
- Subsequent Events

## **HISTORY**

The Company was incorporated on July 9, 1981 as American Business & Mercantile Insurance Mutual Inc., and commenced business January 29, 1982 under the laws of the State of Delaware. On October 16, 1995, the Company's Articles of Incorporation were amended to change the Company's name to American Business & Personal Insurance Mutual, Inc.

As set forth in its charter, the Company was organized as a mutual plan insurance company under Chapter 49, Section 4905(b) of the Delaware Insurance Code by its sponsor, Old Republic International Corporation. The Company's registered and home offices are located at 307 North Michigan Avenue, Chicago, Illinois. The Company also has several subsidiaries, which are identified under the title caption "Holding Company System".

## **MANAGEMENT AND CONTROL**

### **Membership**

Each policyholder of a domestic mutual insurer, other than of a reinsurance contract, is a member of the mutual insurer during the period of insurance coverage, with all rights and obligations of such membership. All issued policies are to specify this fact.

### **Board of Directors**

The amended bylaws state that the Company's business and affairs are to be managed by a Board of Directors consisting of not less than three (3) or more than seven (7) directors. The directors are to be elected at the annual meeting of the membership and hold office until a successor is elected and qualified. It is not necessary for the directors to be members.

The following individuals, elected by unanimous vote, constitute the current Board of Directors as of December 31, 2007:

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Aldo C. Zucaro	Board Chairman, CEO Old Republic International	May 2010
James Alan Kellogg	President, COO of Old Republic International	May 2008
Karl William Mueller	Senior Vice President & CFO Old Republic International	May 2008
Spencer LeRoy III	Senior V. P., Secretary & General Counsel of Old Republic International	May 2009
Richard Scott Rager	Senior V. P., of Old Republic International	May 2010

#### Officers

The amended bylaws state that the officers of the Company consist of a Chairman of the Board, a President, as many Vice-Presidents for general and specific purposes as needed, a Secretary and a Treasurer, and one or more Assistant Vice Presidents, Assistant Secretaries or Assistant Treasurers. The following were elected by unanimous vote of the Board of Directors at the meeting of May 16, 2007 as officers of the Company:

<u>Name</u>	<u>Title</u>
Aldo Charles Zucaro	Chairman, CEO
James Allan Kellog	President, COO
Richard Scott Rager	Executive Vice President
Spencer LeRoy III	Senior Vice President and Secretary
Charles S. Boone	Senior Vice President and Treasurer
Karl William Mueller	Senior Vice President, CFO
Fred Savaglio	Vice President, Controller & Assistant Treasurer
JoAnn Handel	Assistant Vice President & Assistant Controller
William J. Dasso	Assistant Secretary



### **HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system and an affiliate of Old Republic International Corporation, a Delaware corporation. Old Republic International is also the ultimate controlling entity of the entire system. Although Old Republic International Corporation does not own the Company, it exerts significant influence and control over the Company's daily business affairs because:

- Their key management personnel also comprise the Company's Board of Directors and hold all the key positions of Office.
- It owns the \$10,500,000 surplus notes the Company issued.
- Its subsidiaries (through management agreements) perform the Company's daily activities necessary to do business and accordingly maintain the Company's financial records.

The following chart depicts the direct subsidiaries of the Company:

American Business & Personal Insurance Mutual, Inc.  
Inter Capital Group, Inc. (DE)  
Inter Capital Company of Chicago (DE)  
Inter Capital Leasing and Finance Corporation (DE)  
Inter Capital Reality Corporation (DE)

### **TRANSACTION WITH AFFILIATES**

On October 1, 2004, the Company commuted reinsurance previously assumed from Old Republic General Insurance Corporation (f/k/a International Business & Mercantile REassurance Company) (ORGIC), relating to certain reinsurance contracts. The commutation resulted in the Company transferring \$33,489 of loss and loss adjustment expense reserves to ORGIC. The transaction was settled with cash transfers from the Company to ORGIC; resulting in no gain or loss for either company.

On October 1, 2004, the Company commuted reinsurance previously assumed from Old Republic Insurance Company (ORINSCO), relating to certain reinsurance contracts. The commutation resulted in the Company transferring \$749,836 of unearned premium, loss and loss adjustment expense reserves to ORINSCO. The transaction was settled with cash transfers from the Company to ORINSCO; resulting in no gain or loss for either company.

On October 1, 2005, the Company commuted reinsurance previously ceded to Inter West Assurance Company, Ltd (INTW), relating to certain reinsurance contracts. The commutation resulted in INTW transferring \$3,944,421 of loss and loss adjustment expense reserves to the Company. The transaction was settled with cash transfers from INTW to the Company; resulting in no gain or loss for either company.

On October 1, 2006, the Company commuted reinsurance previously ceded to INTW, relating to certain reinsurance contracts. The commutation resulted in INTW transferring \$183,946 of loss and loss adjustment expense reserves to the Company. The transaction was settled with cash transfers from INTW to the Company; resulting in no gain or loss for either company.

On October 1, 2005, the Company amended the maturity date for the \$10,500,000 of reissued surplus notes. Originally, the surplus notes were scheduled to mature on December 15, 2006. Through the amendment, the maturity date has been extended until December 15, 2011. To date the company has paid \$2,835,000 of interest to Old Republic International Corporation on the reissued surplus notes. The amended maturity date for the surplus notes was approved by the Delaware Insurance Department.

## **MANAGEMENT AND SERVICE AGREEMENTS**

The Company was involved in the following types of service arrangements with affiliates or subsidiaries throughout the current examination period:

### **Tax Allocation**

Since 1983 the Company has been involved in a tax sharing arrangement with its subsidiaries. Per the agreement the Company files a consolidated federal tax return on behalf of itself and its subsidiaries. Funds are transferred between entities annually based on the differences between the consolidated filing and filing on a stand alone basis.

### **Reinsurance Management**

Since 1982, the Company has utilized the services of its affiliate, Brummel Brothers, Inc. (f/k/a International Business & Mercantile Insurance Managers) (Brummel), pursuant to a management agreement. An amended version of this agreement became effective January 1, 1997. The terms of the amended agreement allows Brummel to perform various administrative services pertaining to the Company's reinsurance operation. The charge to the Company for services and facilities provided is based upon a percentage of reinsurance premiums on a program by program basis not to exceed ten percent (10%). The service fee is paid quarterly. The amounts paid by the Company to Brummel during the period under review were as follows:

2004	\$ 4,862
2005	\$ 544
2006	\$ 675
2007	\$ 569

### **Investment Management**

Since October 1995, the Company has utilized the services of its affiliate Old Republic Asset Management Corp. (ORAM) to advise and assist in the maintenance of its investment

portfolio. The Company maintains control over the execution of investment transactions. The Company pays a service fee quarterly to ORAM based on the market value of the investment portfolio at the end of each quarter. The amounts paid by the Company to ORAM during the period under review were as follows:

2004	\$ 28,211
2005	\$ 26,440
2006	\$ 22,955
2007	\$ 20,801

#### Administrative Services Agreement

The Company entered into an administrative service agreement effective July 1, 2004 with Old Republic General Services, Inc. (ORGS). ORGS has extensive experience in performing certain administrative and special services and the Company desired to make use of these services.

The services provided include:

- Use of facilities
- Personnel to provide; (1) Accounting, (2) Functional Support Services such as, Review of Reserves, Product Development, Counseling on Reserving Requirements, work required for or in support of Rate and/or Form Submissions, and Actuarial Certifications, (3) Telecommunications Services, (4) Legal Services, (5) Human Resources.
- Computer Services

The amounts paid by the Company to ORGS during the period under review were as follows:

2004	\$59,090
2005	\$82,067
2006	\$52,843
2007	\$55,667

## **TERRITORY AND PLAN OF OPERATION**

### **Territory:**

The Company is licensed to transact business in the following jurisdictions:

Alaska	Kentucky	Nevada
Arizona	Michigan	New Mexico
Delaware	Mississippi	North Dakota
District of Columbia	Missouri	Pennsylvania
Georgia	Montana	Utah
Illinois	Minnesota	Wisconsin
Indiana	Nebraska	

The Company's Delaware license permits it to transact business of health, credit health, property, surety, marine and transportation, casualty, including: vehicle, liability, burglary & theft, personal property floater, glass, boiler & machinery, credit, workmen's compensation & employer's liability, leakage & fire extinguisher equipment, malpractice, elevator, congenital defects, livestock, entertainments and miscellaneous.

### **Plan of Operation:**

The Company currently writes no direct business. It currently only assumes insurance risks from affiliated companies. All other business is currently in runoff.

## **GROWTH OF THE COMPANY**

The following information, obtained from the Company's filed Annual Statements, reflect the Company's growth during the current period under review:

<b>Year</b>	<b>Admitted Assets</b>	<b>Surplus</b>	<b>Net Premiums Written</b>	<b>Net Income</b>
2007	\$ 41,817,486	\$ 21,488,682	\$ 113,670	\$ 2,541,373
2006	43,314,133	20,561,238	135,056	7,029,310
2005	42,835,872	20,317,176	116,431	(921,183)
2004	39,249,943	20,772,861	(198,385)	(2,008,853)

The Company's net written premium has fluctuated during the current period under review. The net written premiums for years 2006 – 2005 were attributable to the remaining active contract that the Company assumes from an affiliate. Other factors that contributed to the changes in the Company's operating results were:

- The Company requested and received permission from the Delaware Department of Insurance every year since 1995 to discount its medical loss reserves. However, the Company has discounted these medical loss reserves for the years prior to 1995 and the approval received in 1995 and subsequent years has not impacted the Company's operating results.
- Dividends received from its affiliate Inter Capital Group (ICG). In 2007 and 2006, the Company received dividends from ICG in the amounts of \$600,000 and \$7,500,000, respectively.
- The revision of the Federal Black Lung Programs regulation in early 2001 that caused the reopening of previously closed loss files.

### **REINSURANCE**

The following is a description of the Company's reinsurance activity for the current period under review.

#### **Assumed:**

Throughout the period currently under review, the Company assumed risk from a multiple line quota share agreement with its affiliate Old Republic Insurance Company. The agreement has been in place since January 1, 1985 and has had numerous amendments. The main lines of business are workers' compensation, other liability and commercial auto liability. The Company also assumed risk from the National Workers' Compensation Reinsurance Pool during the current period.

**Ceded:**

The Company was involved in numerous cession contracts during the current period under review. Most of the contracts pertain to business that has been or is currently being run-off. During 2007 the only cession activity the Company was involved with pertained to:

- A contract that cedes varying percentages of direct workers' compensation business to a non-affiliated reinsurer.
- A contract that cedes varying percentages of direct workers' compensation business to affiliated reinsures.

**ACCOUNTS AND RECORDS**

The Company's closing balance sheet and other documents were reviewed for the purposes of this examination. A review of the adjusted trial balance as of December 31, 2007 indicated that the balances supported the financial data of the Company's 2007 Annual Statement.

Based on the examination review of Annual Statement classifications and subsequent discussions with management, the accounting system and procedures conformed to insurance accounting standard practices and requirements.

INS Consultants, Inc. was contracted by the Delaware Insurance Department to complete an analysis of the Company's reserves as of December 31, 2007. INS Consultants, Inc. estimated that the carried net reserves were deficient by \$1,973,000. This deficiency will be reflected in the Financial Statements of this report.

It is recommended that the Company should strengthen their reserves in future filed Annual Statements.

## **FINANCIAL STATEMENTS**

The following financial statements as determined by this examination are presented herein:

Analysis of Assets  
Liabilities, Surplus and Other Funds  
Underwriting and Investment Exhibit –Statement of Income  
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

## **ANALYSIS OF EXAMINATION CHANGES**

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

### **Analysis of Assets**

#### **As of December 31, 2007**

	<u>Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 25,453,053		\$ 25,453,053	
Common stocks	13,028,796		13,028,796	
Cash, cash equivalents, and short-term investments	2,035,662		2,035,662	
Investment income due and accrued	430,778		430,778	
Uncollected premiums and agents balances in the course of collection	26,398		26,398	
Amounts recoverable from reinsurers	255,791		255,791	
Current federal and foreign income tax recoverable	529,011		529,011	
Net deferred tax asset	1,401,549	\$1,401,549	0	
Receivable from parent, subsidiaries and affiliates	<u>57,997</u>		<u>57,997</u>	
Total Assets	<u><u>\$ 43,219,035</u></u>	<u><u>\$ 1,401,549</u></u>	<u><u>\$41,817,486</u></u>	



**Statement of Liabilities, Surplus and Other Funds**  
**December 31, 2007**

		<u>Notes</u>
Losses	\$21,006,047	1
Reinsurance payable on paid losses and loss adjustment expenses	67,609	
Loss adjustment expenses	1,038,407	
Commissions payable	132	
Other expenses	95,605	
Drafts outstanding	92,595	
Payable to parent, subsidiaries, and affiliates	1,409	
Total Liabilities	<u>\$ 22,301,804</u>	
Surplus notes	\$ 10,500,000	
Unassigned funds (surplus)	9,015,682	
Surplus as regards policyholders	<u>\$ 19,515,682</u>	
Totals	<u><u>\$ 41,817,486</u></u>	

**Underwriting and Investment Exhibit**  
**Statement of Income**  
**December 31, 2007**

**UNDERWRITING INCOME**

Premiums earned	\$ 113,670
-----------------	------------

**DEDUCTIONS**

Losses incurred	\$ (768,023)
Loss expenses incurred	(47,948)
Other underwriting expenses incurred	648,302
Total underwriting deductions	<u>\$ (167,669)</u>
Net underwriting gain or (loss)	\$ 281,339

**INVESTMENT INCOME**

Net investment income earned	\$ 2,150,035
Net realized capital gains or (losses)	<u>5</u>
Net investment gain or (loss)	\$ 2,150,040

**OTHER INCOME**

Net income after dividend to policyholders but before federal income taxes	<u>\$ 2,431,379</u>
Federal and foreign income taxes incurred	\$ (109,994)
Net income	<u>\$ 2,541,373</u>

**Capital and Surplus Account**  
**December 31, 2006 through December 31, 2007**

Surplus as regards policyholders, December 31, 2006	\$20,561,238
Net income	\$ 2,541,373
Change in net unrealized capital gains or (losses)	(1,613,929)
Change in net deferred income tax	1,378,224
Change in nonadmitted assets	(1,378,224)
Change per examination	(1,973,000)
Capital changes:	
Paid in	-
Surplus adjustments:	
Paid in	-
Change in surplus as regards policyholders for the year	<u>\$ (1,045,556)</u>
Surplus as regards policyholder, December 31, 2007	<u>\$ 19,515,682</u>

**Analysis of Examination Changes**  
**December 31, 2007**

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Change due to Examination</u>
<b><u>LIABILITIES</u></b>			
Losses	\$ 19,033,047	\$ 21,006,047	\$ (1,973,000)

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 – Losses**

**\$21,006,047**

The above-captioned liability is \$1,973,000 more than reported by the Company. INS Consultants, Inc., were contracted by the Delaware Insurance Department to complete an analysis of the Company's reserves at December 31, 2007. INS Consultants Inc estimated that the carried net

reserves were deficient by \$1,973,000. Loss reserves have been increased by \$1,973,000 as a result of the completed analysis.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was a prior exam recommendation. All prior examination recommendations were either directly or indirectly addressed subsequent to the previous examination.

#### **SUMMARY OF RECOMMENDATIONS**

It is recommended that the Company should strengthen their reserves.

### **CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between examination periods.

<u>Description</u>	<u>12/31/07 Current Examination</u>	<u>12/31/03 Prior Examination</u>
Total Assets	<u>\$ 41,817,486</u>	<u>\$ 41,749,359</u>
Liabilities	<u>\$ 22,301,804</u>	<u>\$ 18,847,501</u>
Surplus notes	\$ 10,500,000	\$ 10,500,000
Unassigned funds (surplus)	<u>9,015,682</u>	<u>12,401,858</u>
Total capital and surplus	<u>\$ 19,515,682</u>	<u>\$ 22,901,858</u>
Totals	<u>\$ 41,817,486</u>	<u>\$ 41,749,359</u>

Since the last examination as of December 31, 2003, assets increased by \$68,127, liabilities increased by \$3,454,303, and capital and surplus decreased by \$3,386,176.

The assistance on the analysis of the Company's loss reserves and loss adjustment expense reserves by Mr. James Neidermyer, FCAS, MAAA, from the consulting actuarial firm, INS Consultants, Inc., Philadelphia, Pennsylvania is hereby acknowledged.

Respectfully submitted,



---

Michael A. Davis, CFE  
Examiner-in-Charge  
State of Delaware